



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Initial Cost of Service Study - Agreement with
Economic & Engineering Services, Inc. (EES)

MEETING DATE: October 16, 1991

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: That the City Council authorize the City Manager and City Clerk to execute an agreement with EES to perform a Cost of Service study with the Electric Utility Department.

BACKGROUND INFORMATION: A Cost of Service study will be an annual activity of the Electric Utility Department in the future. These studies will be done "in-house" each year to verify the rate structure and adjust to changing conditions.

The initial Cost of Service study will require a "jump start" with professional consulting help. This consultant will perform the formal steps as well as document the account breakdowns and allocation problems which need correction. The first Cost of Service study is intended to be a "rough and dirty" study - we will proceed through the formal steps even though some of the data may not be available or in usable form.

The next phase of our Cost of Service project will be twofold: First, take steps to define and correct problems in translation of accounts and cost breakdowns; second, prepare an inventory of our utility plant in service.

The subject agreement with EES is intended to cover, among other activities, the initial Cost of Service study, documentation of strengths and weaknesses of existing data and cost breakdowns and preparation of the Request for Proposal (RFP) to perform an inventory of the utility plant in service.

EES has performed this same service for other NCPA entities as well as companies and power systems throughout the country. They enjoy a reputation for quickly bringing system account standards and load data up to usable level. EES normally does not perform physical plant inventories, but have performed RFP's for such services.

Without cost of service analysis, incentives for demand-side management customers who practice conservation and shift load to off-peak periods cannot be determined. An active demand-side management (DSM) program would allow the Electric Utility Department to purchase power from existing City of Lodi customers rather than from the Northern California Power Agency. To the extent that local businesses, both large and small, are encouraged to participate in DSM programs, they are strengthening their own and the City's economic bases.

APPROVED: _____

Thomas A. Peterson

THOMAS A. PETERSON
City Manager



Initial Cost of Service Study - Agreement with
Economic & Engineering Services, Inc. (EES)
October 16, 1991
Page two

While it is of paramount importance that power system revenues cover the total cost of service to the public, it is equally important that each segment of the public (class of customers) pay its fair share of the cost of providing electric service. A determination of cost of service needs to be made on a basis that supports cost allocation to each class of customers. A uniform system of accounts for operating expenses and fixed assets is necessary for cost of service account reporting and allocation.

Cost allocation is the tool used to judge whether the rates as designed will recover the cost of service - important because if the rates provide revenues which fail to cover the cost of service of a particular class of customers, then discrimination may be present as other customer groups are compelled to make up the deficiency. The most troubling problem faced by an allocation is caused by the lack of recorded cost breakdowns and customer demand data. We have reasonably accurate demand data collected over the past several years as part of our load survey project. The cost breakdowns may not be available in a readily usable form.

This Cost of Service study is anticipated to be approximately \$32,000.

FUNDING: \$32,000 - Electrical Administration's Professional Service account.



Henry J. Rice
Electric Utility Director

cc: Assist. Electric Utility Director
Manager, Rates & Resources